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## AMERICANS VIEW PEACE NEGOTIATIONS WITH GREATER REALISM

ON the eve of the peace conference opening in Paris on July 29 relations between the principal Allies of World War II have reached a stage of deterioration far more alarming for the future of the world than the atomic bomb; for the bomb is merely a symbol of the profound anxiety that grips peoples everywhere. The chief problem of the Paris negotiators is not how to make peace with the former enemies but how to keep it among the former victorious Allies.

**ALLIES STRUGGLE FOR GERMANY.** Wherever one turns strife is rampant, and human beings who have not yet cleared away the rubble of war wearily face the threat of new conflicts. In China General Marshall's efforts to bring about a reconciliation between the Central government and the Communists have proved fruitless, and civil war has flared up anew. In Germany the four powers which had undertaken to prevent the resurgence of German nationalism are fostering it by their disagreement about the political and economic future of the country which, even though defeated and partially destroyed, retains incalculable potentialities to determine the destiny of Europe. Will the Germans turn to Russia, even more than they did at Rapallo in 1922, when the Soviet government was still weak and itself opposed by the Western world; and will the coalition of Germany's industrial skill and Russia's manpower, dreamed of but not achieved by such diverse leaders as Bismarck, Rathenau and Hitler, become a reality? If such a coalition is to be prevented, what can the United States and Britain offer to Germany, which before the war was their principal competitor for world markets and whose economic recovery beyond the point where it can pay for essential imports they can hardly welcome? Will Allied control of Germany develop

into a sort of auction for German support, with the Western powers and Russia trying to outbid each other? Compared to this struggle for domination of Germany, the peace treaties with Italy and the Axis satellites in Eastern Europe which are to be considered by the Paris Peace Conference dwindle to peripheral importance.

Nor is it possible to argue that the Allied contestants are animated solely by the desire to weaken or ultimately destroy each other. Other motives besides ambition for strategic power complicate the picture. The United States and Britain genuinely fear that Russia will use its control of Eastern Germany to impose on the entire country the practices made familiar by the Soviet system, and thus defeat democratization of the Germans. Yet they have not defined their own concept of a central administration of Germany for which they have been pressing since last autumn, apparently assuming that central economic administrations for trade, finance, and so on can be established without the need for creating central political institutions. France, invaded by Germany three times in one generation, with equal sincerity opposes a centralized political framework for the Reich, fearing that it will again breed militarism, and for reasons both of strategy and urgent economic need France demands the detachment of the Ruhr and administration of the area by an international commission. Russia sounds disingenuous to its wartime Allies when, after having claimed German territories for itself and Poland, it now opposes further "dismemberment" of the Reich. But there is little doubt that its demand for additional reparations out of the current production of an economically united Germany is due first of all to its own vast needs for reconstruction, which cannot be filled promptly either by Russia's industrial facilities,

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severely damaged during the war, or by purchases in this country, where Moscow can have no hope for the time being of obtaining a loan. Russia itself is experiencing the ferment of postwar readjustments.

**STRIFE CONTINUES UNABATED.** Meanwhile, this struggle over Germany, which has occupied the centre of the European stage since V-E Day, inevitably affects the relations of the great powers with the other nations of the continent. Poland is threatened by civil strife between the Left-wing government of Premier Bierut, which sees salvation for the country only in close collaboration with Russia, and other elements ranging from the Peasant party headed by former Premier Mikolaczyk, who has the sympathy but not the material support of the Western powers, and Catholic groups on whose behalf Cardinal Hlond has protested against the present composition of the cabinet. France and Italy, both disillusioned by the character of peace negotiations—France because of Russia's opposition to detachment of the Ruhr, Italy because of the peace terms concerning Trieste, the African colonies, and cession of the Briga-Tenda area—are experiencing a new wave of nationalism. This nationalist sentiment may weaken cooperation between Europe's Communist parties, thus in a sense counteracting the influence of Russia, but at the same time it divides the two Latin countries which together might have given stability to the Mediterranean area. Nor is conflict limited to former theatres of war. In Latin America, now that the restraints of war have been lifted, latent unrest is bursting into violent explosions, as in Bolivia, or threatens political strife, as in Chile.

**NEW TEMPER OF U.S.** To all those who, in spite of warnings during the war, had hoped that the end of hostilities among nations would bring

to a close the period of turmoil the world has experienced since the turn of the century, the present course of events cannot but seem disheartening. Yet much encouragement can be drawn from the temper with which the United States emerges from the agonizingly grinding conferences of the Big Four Foreign Ministers graphically described by Secretary of State Byrnes on July 15. Until now this country, absorbed in the building of a continent and seemingly remote from the centers of strife in Europe and Asia, had looked upon world affairs with a detachment that sometimes appeared to other peoples as verging on frivolity. Now that through force of circumstances we have become immersed in the affairs of other continents, which are also our affairs, a more serious attitude is being developed by the American people toward problems of foreign policy; and this new attitude should make it possible for the United States to play a far more effective role in the world.

The nation is neither in the exalted mood induced by war emergency, nor in the mood of apathy that some observers thought they detected a few months ago. We have lost some of our illusions—illusions that colored President Wilson's idealistic approach to the peace settlement of a quarter of a century ago; but in their stead we are acquiring new convictions which should give a concrete character to our policy, too often in the past formulated in terms of lofty, but abstract, generalities. This new realism need not spell opposition, in season or out, to the desires of other countries, and especially of Russia. What it can spell is a determination to define our own objectives, limited though they may seem at any given time, and then to back up these objectives with adequate military and industrial power.

VERA MICHELES DEAN

## CAN U.S. PREVENT FULL-SCALE CIVIL WAR IN CHINA?

**SHANGHAI**—As civil war begins anew in China, it becomes urgently necessary to realize why the Chinese situation is of vital concern to the United States. Putting the matter briefly, it is in the interest of the United States that China should make a maximum contribution to world peace and prosperity. At present, however, China is contributing to neither, for its civil strife brings close the danger of another world war, while chaotic economic conditions make it extremely difficult for the people to buy goods, or for Chinese and foreign firms to carry on business.

Because of the tense state of American-Soviet relations and the common talk of World War III, some people in the United States may consider it logical to build up China as a Far Eastern military base. Out here it is widely felt that this view exerts an important influence on American policy. There are high Chinese leaders who are inclined to think that the United States will inevitably support the

Kuomintang against the Communists in an all-out civil war because of fear of Russia. Yet if we should come to think of China principally as a base for resistance to Russia, we would find ourselves under the necessity of objecting to leaders opposed to China's military preparations, no matter how beneficial their policies might be for China's internal welfare.

**INTERNAL REFORMS NEEDED.** A few examples will make this problem concrete. (1) One of China's greatest needs today is to reduce military expenditures, so that a larger percentage of the budget can be devoted to the well-being of the people. Clearly, efforts to build this country into a strong strategic base would keep military expenditures high, irrespective of the contribution the United States itself might make. (2) China desperately needs agrarian reform to raise the peasant's standard of living. Moreover, it is only through an increase

in mass purchasing power that this country can become a great market for foreign, as well as domestic goods. Yet if China were to prepare itself for participation in a future Soviet-American conflict, the Chinese government would hardly be interested in economic change, but would rather bend its efforts toward suppressing the progressive or radical elements which advocate reform. (3) Again, few things could be more beneficial for China than to have the progressive elements, which undoubtedly exist in the Kuomintang, take over the leadership of the party. Yet these are the very people who are least interested in developing China's military potentialities and who would most prefer to turn their attention to the problems of peaceful reconstruction. To approach China largely in military terms would be to allow Russian political influence to spread by default. It would be a confession that the United States, while anxious to make use of China, had little to offer the Chinese people politically.

Since a policy of stressing China's military role in world affairs would offer encouragement to the most militaristic people in the central government, a large section of the Chinese people would almost certainly hold responsible any foreign power that gave such encouragement, as Mme. Sun Yat-sen pointed out on July 23. Lest it be thought that there is anything partisan in this outlook, it is equally certain that if the United States were neutral in China, and Russia poured out military assistance to the Chinese Communists, most of the people would show great hostility toward Russian policy. The fundamental attitude of the Chinese people is quite simple: they are neither pro-Russian nor pro-American, they are only pro-Chinese. They know that a Soviet-American war might be fought first of all on their soil, and they have no desire to become a battleground for other powers.

#### CAN CHINA SERVE AS MILITARY BASE?

Apart from all these considerations, China at present offers a pitiful picture of a potential base. The government is weak and commands only partial allegiance from the people, it faces a strong political

and military opponent in the Chinese Communists, its administrative structure creaks and is marked by far greater corruption than in more modern countries, its economy is chaotic and suffers from a fantastic inflation, and its heterogeneous troops are in various stages of training and development. China cannot become strong militarily unless it fortifies itself economically and politically, and this can be done only if military considerations are minimized and emphasis is placed on the creation of a modern coalition régime. The logical outcome of a military approach to China would be a policy of increasing American armed intervention, to make up for the power deficiencies of the Chinese government. Actually, however, at latest reports, General Marshall's return to the United States is to be followed by the withdrawal of American marines.

Only one policy can satisfy the real interests of China and the United States: to start from the premise that full-scale civil war must be stopped, that China needs an indefinite period of peace for reconstruction, that the main economic and political emphasis should be on welfare and democracy, that peace cannot be achieved except through the cooperation of all political groups and parties, and that the best way to attain peace in China is to avoid encouraging the militarists and to make our support truly conditional on the establishment of democratic unity, in accordance with President Truman's statement of last December 15.

Since the Japanese surrender the United States has poured hundreds of millions of dollars into China in one form or another—lend-lease, our predominant share of UNRRA aid, technical assistance, the cost of our armed forces, the extension of a cotton loan, etc.—but it appears to many Americans over here that much of this money has gone down the drain. Our assistance will begin to bring genuine returns only when China has a progressive coalition government, emphasizing reconstruction, not war.

LAWRENCE K. ROSINGER

*(Second in a series of articles on United States policy in China.)*

### EMPHASIS ON IMPORTS NEEDED TO BALANCE U.S. LOAN POLICY

The economies of other nations are dependent on the United States as never before, for this is the only country which has adequate productive capacity and loan capital to assist in restoring their trade and industry; yet the current economic situation here is such as to create grave uncertainty throughout the world. Price controls in the United States have been allowed to lapse owing to differences over the provisions of a new OPA law. By the end of the week a compromise price control law will have been enacted, but whether the new measure will be effective in preventing an inflation spiral re-

mains to be seen. Fear prevails abroad that the United States may experience an uncontrolled rise of prices followed by a sharp deflation. If this should occur, other nations feel reasonably certain that public opinion here will move toward increased protectionism, as it did after World War I.

**BRITISH MAY AVOID USING LOAN.** The most striking example of this uncertainty is the situation of the British loan, which was signed by President Truman on July 15. In return for the loan, Britain undertook to join this country in a program of freer multilateral trade, involving important



trade concessions by the British. When the agreement was drawn up last summer, London measured the real value of the loan in terms of prices then prevailing. In the meantime, however, American prices have gradually but steadily increased. Since the demise of OPA, the upward trend has accelerated. It is not surprising, therefore, that on July 19 the Financial Secretary to the British Treasury announced in Parliament that, although the dollar credits had been granted, Britain did not necessarily have to draw on them. He further implied that if inflation went unchecked here, London might not make much use of the loan. Given the precarious balance of payments position of Britain, it is a plausible assumption that if the loan is not fully used, that country will not remove its trade restraints, but instead will probably increase them. Whatever course Britain elects to follow will serve as an example to other countries which face similar balance of payments difficulties. In short, it is clear that the threat of inflation is a setback for the American program to promote freer world trade. Stated in another way observers abroad, remembering the interwar period, have come to think of the American economy as being highly unstable; they fear another boom and bust, with dire effects on their already strained economic systems.

#### NO LOANS TO RUSSIA AND CHINA NOW.

The British loan has been regarded throughout as a special measure; loans to other countries must be made from the resources of the Export-Import Bank. But commitments already undertaken by the Bank have reduced its remaining lending power to about \$350 million. This sum is obviously much less than the amounts Russia and China want to borrow. On July 18 the President announced he would not request Congress to increase the lending power of the Bank during the present session; as a result, no credit commitments for Russia and China are to be made before 1947. Observers agree that Congressional sentiment at the present time is definitely averse to a grant of credit to Russia. In China, little

progress has been made toward a unified government and military establishment, which Truman's statement of December 15 declared to be the condition for a loan to China; in fact, it now appears that a full-scale civil war may be starting in that country.

**LOANS OR GIFTS?** Foreign loans are essentially a stopgap measure; they merely provide recipients with dollar exchange to enable them to meet balance of payments problems during the difficult period of transition to peacetime trade and industry. If they are not to be gifts, they must be paid off; and if they are to be repaid, this country must increase its purchases of goods and services abroad. According to a forecast of the Department of Commerce, United States loans and investments abroad may total as much as \$30 billion by 1951, including some \$10 billion of prewar private foreign investments. It is not to be expected that all of this debt will be repaid, leaving the United States with no foreign investments; but more than \$10 billion of intergovernmental debts must be paid back, and service charges on the whole must be met. To effect this transfer of funds, debtors must find dollars; this they must do for the most part by selling in due course more to this country than we buy from them.

With shortages of goods in the United States and a continued rise in prices, this is the time for Washington to initiate boldly a sizeable reduction in tariff rates. The emphasis of our foreign economic policy must be increasingly shifted from exports to imports, if we are not to give away goods by financing their sale abroad with loans that cannot be repaid. The lessons of the nineteen-twenties are clear—either the proportion of imports in our foreign trade must rise, or exports will drop once loans to cover payment of interest on outstanding debts cease. There was not a steady and sustained flow of capital abroad in the interwar period; when the flow declined rapidly after 1928 the underlying weakness of the world's economic structure became all too soon apparent. Looking to the future, we have no assurance today that the outward flow of American capital will be stable and steady. Unless the structure of foreign trade is geared to this country's creditor status, there will be no lasting balance and stability in the world economy. Instead there will ensue eventually another era of debt defaults, with accompanying recourse to trade and exchange controls—in short, economic warfare with adverse political repercussions.

HAROLD H. HUTCHESON

*(The last of three articles on postwar commercial policy.)*

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